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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
INC., AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS SUN CITY  
WEST WATER AND WASTEWATER  
DISTRICTS.

Docket No. WS-01303A-02-0867

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
INC., AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS SUN CITY  
WATER AND WASTEWATER DISTRICTS.

Docket No. WS-01303A-02-0868

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
INC., AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS MOHAVE  
WATER DISTRICT AND ITS HAVASU WATER  
DISTRICT.

Docket No. W-01303A-02-0869

**NOTICE OF FILING  
TESTIMONY SUMMARY**

1 IN THE MATTER OF THE APPLICATION OF  
2 ARIZONA-AMERICAN WATER COMPANY,  
3 INC., AN ARIZONA CORPORATION, FOR A  
4 DETERMINATION OF THE CURRENT FAIR  
5 VALUE OF ITS UTILITY PLANT AND  
6 PROPERTY AND FOR INCREASES IN ITS  
7 RATES AND CHARGES BASED THEREON  
8 FOR UTILITY SERVICE BY ITS AGUA FRIA  
9 WATER DISTRICT AND ITS ANTHEM / AGUA  
10 FRIA WASTEWATER DISTRICT.

Docket No. WS-01303A-02-0870

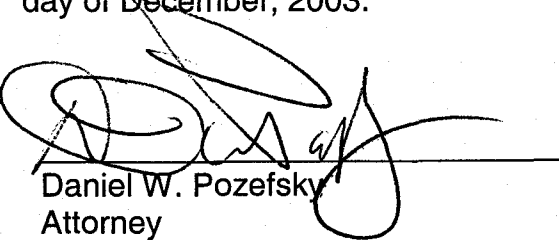
6 IN THE MATTER OF THE APPLICATION OF  
7 ARIZONA-AMERICAN WATER COMPANY,  
8 INC., AN ARIZONA CORPORATION, FOR A  
9 DETERMINATION OF THE CURRENT FAIR  
10 VALUE OF ITS UTILITY PLANT AND  
11 PROPERTY AND FOR INCREASES IN ITS  
12 RATES AND CHARGES BASED THEREON  
13 FOR UTILITY SERVICE BY ITS TUBAC  
14 WATER DISTRICT.

Docket No. W-01303A-02-0908

11 **NOTICE OF FILING**

12 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing  
13 the Testimony Summaries of Timothy J. Coley, Marylee Diaz Cortez, Rodney L. Moore  
14 and William A. Rigsby in the above-referenced matters.

15 RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of December, 2003.

16  
17   
18 Daniel W. Pozefsky  
19 Attorney  
20  
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23  
24

1 AN ORIGINAL AND TWENTY-ONE COPIES  
2 of the foregoing filed this 4<sup>th</sup> day  
3 of December, 2003 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand-delivered/  
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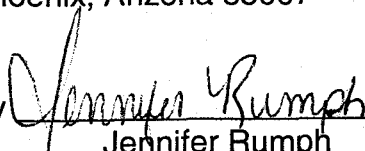
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By

  
Jennifer Rumph

**ARIZONA- AMERICAN WATER COMPANY, INC.**

**DOCKET NOS. WS-01303A-02-0867**

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**WS-01303A-02-0868**

**W-01303A-02-0869**

**WS-01303A-02-0870**

**W-01303A-02-0908**

**TESTIMONY SUMMARY**

**OF**

**TIMOTHY J. COLEY**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**DECEMBER 4, 2003**

ARIZONA AMERICAN WATER COMPANY  
DOCKET NO. WS-01303A-02-0867 et al.  
SUMMARY OF TESTIMONY OF TIMOTHY J. COLEY

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This summary highlights the matters that Mr. Timothy J. Coley addressed in his direct and surrebuttal testimonies. The complete detail regarding his recommendations on these subject matters can be found in the aforementioned testimony as was filed with the Arizona Corporation Commission ("ACC").

Mr. Coley recommends the following adjustments to rate base and operating income:

Rate Base:

Prior Test Year Plant Placed in Service – This adjustment calculates plant placed in service since the Company's last rate case. Mr. Coley reconstructed the test year plant-in-service balance starting from the last Commission decisions that set authorized rate base component balances whereas the Company used the 2001 test year book balances.

Prior Test Year Accumulated Depreciation – This adjustment also calculates accumulated depreciation since the Companies' last rate case proceedings. It reduces or increases the level of accumulated depreciation (dependent upon the particular system) that was in the Company's rate application.

Proforma Plant – This adjustment takes the actual year-end 2002 plant additions and reductions and adjusts the Company's estimated figures. The 2002 actual plant figures are the most recent known and measurable balances.

Contributions-In-Aid-Of-Construction (CIAC) – This adjustment corrects the Company's rate application CIAC balance in the Mohave District only.

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Operating Income:

Depreciation & Amortization Expense – This adjustment calculates depreciation and amortization expense based on RUCO's recommended plant levels.

Property Tax Expense – This adjustment calculates property tax expense based on the currently effective and clearly prescribed Arizona Department of Revenue (DOR) formula.

Income Tax Expense – This adjustment calculates the appropriate level of income tax expense given RUCO's recommended operating income.

**ARIZONA- AMERICAN WATER COMPANY, INC.**

**DOCKET NOS. WS-01303A-02-0867**

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**WS-01303A-02-0870**

**W-01303A-02-0908**

**TESTIMONY SUMMARY**

**OF**

**MARYLEE DIAZ CORTEZ**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**DECEMBER 4, 2003**



ARIZONA AMERICAN WATER COMPANY  
DOCKET NO. WS-01303A-02-0867 et al.  
SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ

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The following is a summary of the significant issues set forth in the direct and surrebuttal testimony of Ms. Diaz Cortez. A full discussion of these issues and the underlying theory and rationales for her recommendations are contained in the referenced documents.

In her testimony, Ms. Diaz Cortez recommends that the Commission adhere to the original cost standard of ratemaking and deny the computation of revenue requirements based on a Reconstruction Cost New Depreciated (RCND) rate base times an original cost rate of return proposed by the Company. Ms. Diaz Cortez recommends the restatement the RCND rate base to its equivalent original cost rate base, to which an original cost rate of return should be applied. Ms. Diaz Cortez recommends the following adjustments to AZ-AM rate request:

Rate Base

Adjustment #1 – Test year Plant & Accumulated Depreciation - This adjustment recomputes test year original cost plant and accumulated depreciation based on the plant, accumulated depreciation, and depreciation rates authorized in the Companies last rate case

Adjustment #2 – Proforma Plant and Accumulated Depreciation - This adjustment restates the Company's estimated proforma plant to reflect the

actual non-revenue producing plant completed in 2002. The adjustment also increases Accumulated Depreciation to include a half-year of depreciation recovery on the proforma plant actuals.

Adjustment # 3 – Acquisition Adjustment - This adjustment removes the acquisition premium the Company paid on the purchase of the Citizen's assets. Decision No. 63584 provided that recovery of the acquisition premium would be based on AZ-AM's ability to demonstrate that clear, quantifiable, and substantial net benefits have been realized in the affected areas, which would not have been realized had the transaction not occurred. The Company has made no such showing.

#### Operating Income

Adjustment #1 – Citizens' Corporate Allocations – This adjustment corrects for certain errors the Company made in removing Citizens Corporate Allocations.

Adjustment #2 – Citizens' Test Year Payroll – This adjustment corrects for certain errors the Company made in removing Citizens Payroll and Payroll Tax Expense.

Adjustment #3 – AZ-AM Service Company Charges – This adjustment restates AZ-AM estimated Service Company Charges to reflect the actual Service Company Charges.

Adjustment # 4 – AZ-AM Payroll - This adjustment restates the AZ-AM estimated level of payroll expense and payroll taxes to reflect the actual level of payroll expense and taxes.

Adjustment #5 – Depreciation Expense - This adjustment calculates annual depreciation expense based the level of plant recommended by RUCO, and on the depreciation rates requested by the Company.

Adjustment #6 – Property Taxes – This adjustment computes test year property tax expense based the methodology used by the Arizona Department of Revenue.

Adjustment #7 – Rate Case Expense - This adjustment decreases the Company requested level of rate case expense to an amount that is commensurate with prior Commission authorized levels.

Adjustment #8 – AZ-AM Overheads – This adjustment restates AZ-AM estimated overheads to reflect actual overheads.

Adjustment # 9 - This adjustment is not applicable to the Agua Fria Water and Anthem Water and Wastewater systems.

Adjustment #10 – Income Tax Expense - This adjustment calculates test year income tax expense based on RUCO's recommended operating income.

Other Issues - Discussion and recommendation concerning Sun City Wastewater's request of an adjustor mechanism to recover incremental investment in the Tolleson Wastewater Treatment Plant.

**ARIZONA- AMERICAN WATER COMPANY, INC.**

**DOCKET NOS. WS-01303A-02-0867**

**WS-01303A-02-0868**

**W-01303A-02-0869**

**WS-01303A-02-0870**

**W-01303A-02-0908**

**TESTIMONY SUMMARY**

**OF**

**RODNEY L. MOORE**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**DECEMBER 4, 2003**

SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

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**DIRECT TESTIMONY**

The following is a summary of the Direct Testimony given by Rodney L. Moore that is applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the document as referenced.

Based on the findings of Mr. Moore's review and analysis of the Company's application and records, RUCO recommends the application be denied, and the Company be required to file a rate application using a typical historical test year.

Failing the concurrence of the Commission with RUCO's recommendation; in the alternative, several adjustments are proposed in this testimony, which are reasonable and should be considered by the administrative law judge in his/her recommended opinion and order.

The testimony of Mr. Moore addresses the following issues:

**Rate Base**

Fair Value Rate Base – RUCO did not consider the Company's position on using reconstruction cost new less depreciation ("RCND") plant information; instead, RUCO calculated fair value rate base ("FVRB") as original cost rate base ("OCRB").

Test Year Plant In Service and Accumulated Depreciation - The adjustment is based on reconstruction of the gross utility plant and accumulated depreciation balance from the prior 1995 test year through the instant 2001 test year.

Post-Test Year Plant In Service and Accumulated Depreciation - The adjustment is based on reconstruction of the revenue neutral plant and accumulated depreciation balance from the end of the 2001 test year through the end of 2002 post-test year.

Acquisition Adjustment - The adjustment is based on removal of the Company's entire request for an Acquisition Adjustment.

### **Operating Expenses**

Operating Income – There were no adjustments made to the test year total operating revenues.

Salaries and Wages Expense – The adjustments are based on RUCO's calculation of the differences between Citizens' corporate allocations and AZ-AM's Service Company charges.

Chemicals – (For the Sun City Wastewater District Only). The Adjustment reinstates the \$105,695 expense documented but not included in the total adjusted operating expenses of Sun City Wastewater District.

Office Supplies and Expense – The adjustments are based on calculation of the differences between Citizens' corporate allocations and AZ-AM's Service Company charges.

Service Company Charges – The adjustments are based on calculation of the differences between Citizens' corporate allocations and AZ-AM's Service Company charges.

Insurance – Generally Liability – The adjustments are based on calculation of the differences between Citizens' corporate allocations and AZ-AM's Service Company charges.

Regulatory Commission Expense – Rate case – The adjustment is based on RUCO's determination of the fair and reasonable cost to AZ-AM's ratepayers for this application process.

Miscellaneous Expense – The adjustments are based on calculation of the differences between Citizens' corporate allocations and AZ-AM's Service Company charges.

Depreciation Expense – This adjustment decreases test year operating expenses to reflect computations based on RUCO's recommended total plant balance using the Commission's approved depreciation rates.

Taxes Other Than Income - The adjustments are based on RUCO's calculation of the payroll tax differences between Citizens' corporate allocations and AZ-AM's Service Company charges.

Property Taxes Expense - This adjustment reflects the Company's property tax based on the use of the Arizona Department of Revenue formula.

Income Tax Expense – This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

### **Rate Design**

Mr. Moore recommends a rate design that is generally consistent with the Company's proposed rate design, but reflects RUCO's recommended revenue requirement.

### **CONCLUSIONS AND RECOMMENDATIONS**

In lieu of a complete denial of the Company's filing, RUCO alternatively recommends:

1. For ratemaking purposes, the proposed revenue requirements should not exceed:

Sun City West Water	\$3,860,482
Sun City West Wastewater	\$4,563,072



Sun City Water	\$8,156,424
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Sun City Wastewater	\$4,193,565
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Tubac Water	\$295,298
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2. For ratemaking purposes, the OCRB and FVRB for test year ending December 31, 2001 should be:

Sun City West Water	\$11,366,817
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Sun City West Wastewater	\$10,470,538
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Sun City Water	\$22,304,176
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Sun City Wastewater	\$8,893,532
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Tubac Water	\$1,172,012
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3. A fair and reasonable rate of return of FVRB is 6.57 percent.

### **SURREBUTTAL TESTIMONY**

The following is a summary of the surrebuttal testimony given by Rodney L. Moore that is applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the document as referenced.

Mr. Moore's surrebuttal testimony will address the following RUCO proposed adjustments:

1. Rate Base Adjustment No. 1 – Test Year Original Cost Rate Base.
2. Rate Base Adjustment No. 2 – Post –Test Year Original Cost Rate Base.
3. Rate Base Adjustment No. 3 – Acquisition Adjustment.
4. Operating Income Adjustment No. 3 – AZ-AM's Service Company Charges.
5. Operating Income Adjustment No. 4 – AZ-AM's Salaries and Wages.
6. Operating Income Adjustment No. 8 – Additional Corporate Overhead.
7. Cost of Capital.
8. Rate Design.
9. Clarification of three computation errors discovered in my direct testimony.

### **Rate Design**

After review of the Company's cost of service study provided in its rebuttal testimony, Mr. Moore adjusted his proposed rates to create an equal percentage increase across all customer classes and commodity charges. He also adjusted his proposed rates to reflect his surrebuttal revenue requirement revisions.

### **CONCLUSIONS AND RECOMMENDATIONS**

RUCO's surrebuttal recommendations are:

1. For ratemaking purposes, the proposed revenue requirements should not exceed:

	<u>DIRECT</u>	<u>SURREBUTTAL</u>
Sun City West Water	\$3,860,482	\$3,926,566

Sun City West Wastewater	\$4,563,072	\$4,615,530
Sun City Water	\$8,156,424	\$7,765,111
Sun City Wastewater	\$4,193,565	\$4,231,519
Tubac Water	\$295,298	\$304,839

2. For ratemaking purposes, the OCRB and FVRB for test year ending December 31, 2001 should be:

	<u>DIRECT</u>	<u>SURREBUTTAL</u>
Sun City West Water	\$11,366,817	\$11,384,070
Sun City West Wastewater	\$10,470,538	\$10,541,392
Sun City Water	\$22,304,176	\$22,353,535
Sun City Wastewater	\$8,893,532	\$8,929,152
Tubac Water	\$1,172,012	\$1,173,409

3. A fair and reasonable rate of return of FVRB is 6.77 percent.

**ARIZONA- AMERICAN WATER COMPANY, INC.**

**DOCKET NOS. WS-01303A-02-0867**

**WS-01303A-02-0868**

**W-01303A-02-0869**

**WS-01303A-02-0870**

**W-01303A-02-0908**

**TESTIMONY SUMMARY**

**OF**

**WILLIAM A. RIGSBY**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**DECEMBER 4, 2003**

ARIZONA-AMERICAN WATER COMPANY, INC.  
DOCKET NO. WS-01303A-02-0867 et al.  
SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY

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The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby, on Arizona-American Water Company, Inc.'s ("Arizona-American" or the "Company") application which requests permanent rate increases for the Company's water and wastewater operations located in Maricopa, Mohave, and Santa Cruz counties. A full discussion of the cost of capital issues associated with the Company's request for revenue relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the referenced documents. His cost of capital analysis was performed on a companywide basis. The significant issues associated with the case are as follows:

Capital Structure – Mr. Rigsby is recommending a capital structure that is comprised of 40.11% common equity and 59.89% long-term debt.

Cost of Equity Capital – Mr. Rigsby is recommending a 9.61% cost of equity capital. Mr. Rigsby's 9.61% figure is based on the results of his cost of equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies. Mr. Rigsby's recommended 9.61% cost of equity capital figure also contains a 50 basis point adjustment, which takes the Company's debt leveraged capital structure into consideration.

Cost of Long-Term Debt – Mr. Rigsby has adopted the Company's revised 4.86%

cost of long-term debt, which is slightly lower than the 4.87% figure that he originally recommended in his direct testimony. His original 4.87% cost of debt figure was based on his review of the Company's calculation of the costs associated with Arizona-American's bond issuances and notes that mature between 2026 and 2028.

Weighted Cost of Capital – Based on his recommended capital structure and the results of his cost of common equity and cost of debt analyses, Mr. Rigsby is recommending a 6.77% cost of capital for Arizona-American. This figure represents the weighted cost of the Company's common equity, long-term debt, and long-term notes.